

DRAFT: AUDIT COMMITTEE

Article VII

Section ##. Audit Committee

There is hereby created an Independent Audit Committee consisting of five (5) members. The Audit Committee shall be an independent body. To insure its independence, the Audit Committee shall be composed of two (2) members of the City Council for the City of San Diego and three (3) members of the public. Public members of the Audit Committee shall possess the independence, experience and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes but is not limited to basic knowledge of accounting and auditing standards. The public members of the Audit Committee shall serve without compensation for terms of five years until their successors are appointed. Public members of the Audit Committee are limited to two (2) full consecutive terms, with one (1) term intervening before they become eligible for reappointment.

The composition, rights and duties of the Audit Committee are set forth in full in this Charter Section #####. As such, the provisions of Charter Sections 11.1, 41 and 43 shall not apply to the Audit Committee. All meetings of the Audit Committee shall be noticed and conducted in accordance with the Ralph M. Brown Act.

The purpose of the Audit Committee is to assist the City Council in fulfilling its oversight responsibilities regarding financial statements and auditing, accounting and related reporting processes and systems of internal controls regarding finance, accounting, financial reporting, and business practices and conduct established by City management and the Council.

In carrying out its oversight functions, the Audit Committee shall:

- (a) So long as the Audit Committee is independent and comprised as described above, the Audit Committee shall be responsible for oversight of the work of the City's

Internal Auditor for the purpose of preparing or issuing audit reports or related work.

- (b) In consultation with the City Manager, be responsible for the appointment, compensation, retention and, where appropriate, replacement of any registered public accounting firm selected to be the City's independent auditor for the purposes of preparing or issuing an audit up to and including the City's annual audited financial statements. Meet with the independent auditors prior to the audit for each fiscal year to review the planning, staffing and scope of the audit.
- (c) Review and discuss the City's annual audited financial statements and any periodic financial statements with the City Manager, the City's Internal Auditor and the independent auditors.
- (d) Based on its review and discussions with management and the independent auditors, recommend to the City Council whether the City's audited financial statements should be received by the City Council.
- (e) Review major changes to the City's auditing and accounting principles and practices as suggested by the independent auditors or management.
- (f) Review and discuss with the City Manager and the independent auditors the adequacy and effectiveness of the City's internal controls and the effectiveness of the City's disclosure controls and procedures.
- (g) Review and discuss with the City Manager and the independent auditors:
 - (1) Any material financial or non-financial arrangements that do not appear on the City's financial statements;
 - (2) Any transactions or courses of dealing with parties related to the City that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and that are relevant to an understanding of the City's financial statements;
 - (3) Material financial risks that are designated as such by management or the independent auditors.
- (h) Establish procedures for the receipt, retention and treatment of complaints received by the Audit Committee regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by the

City's employees or members of the public of concerns regarding accounting or auditing matters.

- (i) Obtain, review and discuss with the independent auditors annually or more often if deemed necessary by the Audit Committee a report by the independent auditors describing (i) the independent auditors' internal quality-control procedures, and (ii) any material issues raised by the most recent internal quality control review or peer review of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and the steps taken to address those issues.
- (j) Review the report by the independent auditors concerning: (i) all critical accounting policies and practices to be used; (ii) alternative treatments of financial information within GAAP that have been discussed with management officials, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (iii) any other material written communications between the independent auditors and the City's management.
- (k) Review and discuss with the independent auditors annually or more often if deemed necessary by the Audit Committee, all relationships the independent auditors have with the City in order to evaluate the independent auditors' continued independence, and receive from the independent auditors on an annual basis a written statement regarding the auditors' independence.

The Audit Committee shall have not authority or responsibility to prepare or direct the preparation of the City's financial statements.

Other Charter Sections that need to be looked at to allow these changes: 11.1, 41, 43